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Brazil

Grain and Feed

Wheat, Corn, and Rice Update

2005

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Report Highlights:

Post lowered both 2003/04 and 2004/05 corn production by 500,000 tons to 35.0 million tons and 42.5 million tons respectively. The forecast for 2004/05 marketing year imports is lowered by 700,000 tons while the 2005/06 forecast is raised to 1.0 million tons. Forecast 2005/06 rice production is lowered 500,000 tons to 11.5 million tons due primarily to dismal domestic prices. Meanwhile, 2005 calendar and trade year imports are raised 100,000 tons to 500,000 tons and 550,000 tons respectively. The Post 2005 forecast for wheat production is unchanged from the previous post report at 5.0 million tons.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Brasilia [BR1]
[BR]

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Wheat

PS&D

Brazil							
Wheat							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		10/2003		10/2004		10/2005	MM/YYYY
Area Harvested	2464	2464	2756	2756	2400	2330	(1000 HA)
Beginning Stocks	656	886	508	701	1433	1527	(1000 MT)
Production	5851	5851	5845	5845	4800	5000	(1000 MT)
TOTAL Mkt. Yr. Imports	5179	5339	5300	5300	5200	5400	(1000 MT)
Jul-Jun Imports	5559	5558	5300	5398	5500	5700	(1000 MT)
Jul-Jun Import U.S.	369	369	55	54	0	150	(1000 MT)
TOTAL SUPPLY	11686	12076	11653	11846	11433	11927	(1000 MT)
TOTAL Mkt. Yr. Exports	1378	1375	20	19	50	25	(1000 MT)
Jul-Jun Exports	1378	1375	14	15	50	25	(1000 MT)
Feed Dom. Consumption	200	200	300	300	200	400	(1000 MT)
TOTAL Dom. Consumption	9800	10000	10200	10300	10200	10600	(1000 MT)
Ending Stocks	508	701	1433	1527	1183	1302	(1000 MT)
TOTAL DISTRIBUTION	11686	12076	11653	11846	11433	11927	(1000 MT)

Production

The Post 2005 wheat production forecast is unchanged at 5.0 million tons on 2.3 million hectares. With over 40 percent of the harvest complete in Parana, early yields indicate better than expected productivity. Post forecasts production in the state at 2.9 million tons, which is similar to last year's production. Nevertheless, harvest progress will need to be watched closely as rains are causing delays and lowering the wheat quality. In a recent trip to Parana, Post learned of the difficult situation facing wheat growers in the state. Contacts there report that the variable cost of production is R$24 per sack while the total cost is R$33 per sack and the current price of wheat is just R$19 per sack. Despite the net loss this year, producers are not expected to greatly reduce planted area in 2006. This is primarily due to the fact that most wheat growers also produce soybeans and principally plant wheat for agronomic reasons. Wheat provides a cover crop to limit erosion, control weeds, and works well in direct planting systems. Soybean growers need a winter crop and wheat is a good option even though they will not make a direct financial profit. Nevertheless, if the current prices continue through to planting in May, Post expects that at least some wheat area will move to alternative winter cover crops.

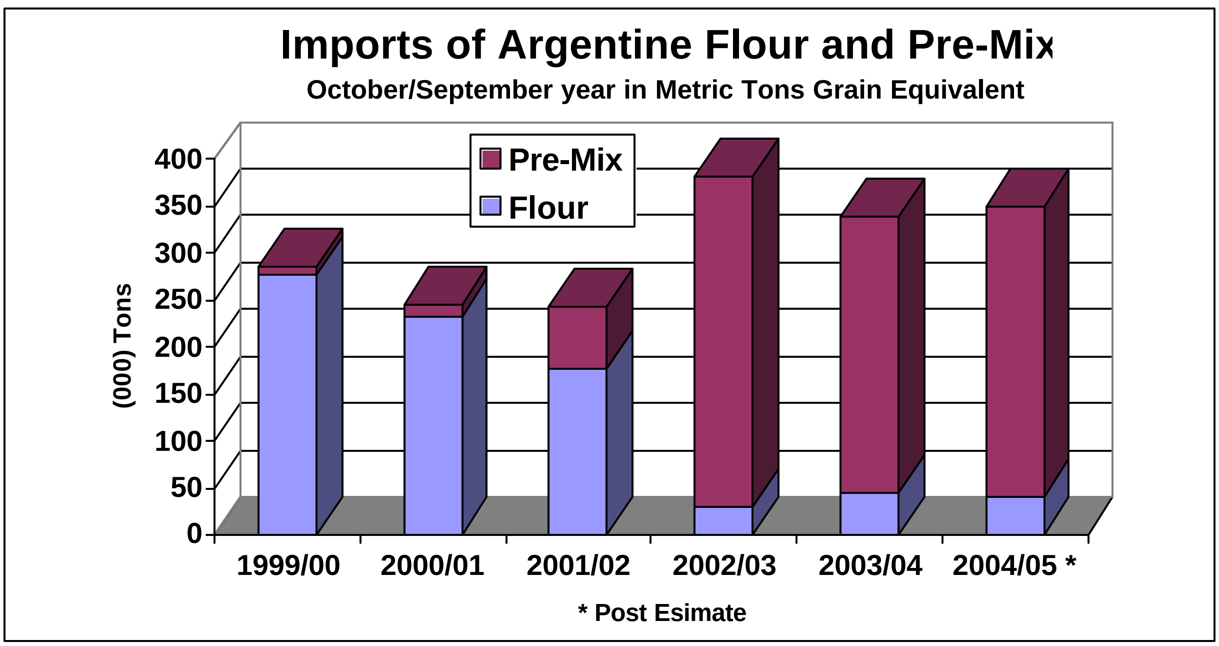
Post forecasts production in Rio Grande do Sul (RS) at 1.6 million tons on 850,000 hectares. Area in RS fell by an estimated 22 percent this year due to the under capitalization of producers resulting from the poor corn and soybean harvests as well as low internal prices. In some regions of the state producers reduced wheat area in favor of cover-crop oats and sunflower. At planting in May and June, the price of wheat was 34 percent lower than the previous May, while the price of oats fell by only 5 percent. Meanwhile, the price of other competing crops such as barley increased by 6 percent and canola gained 3 percent. However, as was the case in Parana, the area reduction was restrained by the need to plant wheat as a winter crop in a direct planting system.

Post Forecast Wheat Production 1,000 tons			
	2004/05	2005/06	Change %
Parana	3,038	2,900	-5
Rio Grande do Sul	2,130	1,600	-25
Santa Catarina	185	150	-19
Center-West	298	200	-33
Southeast	194	120	-38
Total	**5,845**	**4,970**	**-15%**

Along with a reduction in planted area, yields are slightly down this year due to less technology used. For example, instead of purchasing certified seed, producers sought to cut expenses by planting saved seed from the previous harvest. The Rio Grande do Sul Association of Seed Traders and Producers (Apassul) reports that seed sells were only 50 percent that of last year. Additionally, contacts report reduced fertilizer and fungicide applications.

Trade

Post wheat and product forecast imports for the 2004/05 marketing year (October/September) are raised 300,000 tons to 5.3 million tons while final July/June imports are estimated at 5.4 million tons, which includes nearly 350,000 tons of flour and pre-mix imports (see graph below). Despite strong pressure on the government from the domestic milling industry, pre-mix flour from Argentina continues to flow into Brazil, particularly into Sao Paulo.



Forecast imports for the 2005/06 marketing and trade years were raised 200,000 tons each to 5.4 million tons and 5.7 million tons respectively. This increase is due primarily to the very favorable exchange rate for imports along with quality concerns regarding this year's harvested wheat in Parana. Though Argentine supplies will be somewhat tighter next year due to a smaller crop, other exporters such as the United States and possibly the Ukraine should fill additional demand. Imports from the United States are forecast at 150,000 tons with Soft Red Winter (SRW) wheat expected to be competitive in the northeast. However, U.S. wheat will still face competition in the northeast from supplies originating in southern Brazil, which receive a government transportation subsidy under the PEP program (for more information see BR4623). The government reports that 434,000 tons of wheat were subsidized under the PEP program in 2004/05.

Consumption

Post forecasts 2005/06 consumption to increase by 300,000 tons to 10.6 million tons partially due to increased use of wheat in feed rations as a result of an expected abundant supply of low quality wheat in Parana. Meanwhile, Post forecasts 2004/05 (October to September) consumption at 10.3 million tons. As of late September, the price of flour in Brazil fell approximately five percent since this January due to a large domestic wheat harvest last year, less expensive imported wheat due to the strong domestic currency, and relatively low international prices. However, over the same time the price of bread increased four percent, according to the Brazilian Institute for Geography and Statistics (IBGE). This inverse relationship between flour and bread prices is likely due to bakers and supermarkets looking to increase margins on bread after several tight years. Additionally, along with higher labor and energy costs, consumer demand for bread is strong as overall inflation is under control and incomes are on the rise.

Wheat consumption in Brazil is not keeping pace with increases in population and is very low at just 50 kg/person, compared to over 90 kg/person in Argentina and 70 kg/person recommended by the World Health Organization. To combat this situation the Brazilian Wheat Industry Association (Abitrigo) is taking a two-step approach to the problem. Abitrigo is promoting the health aspects of iron and folic acid enriched bread as well as working to lower the price of bread by pressing the government to eliminate the PIS & Cofins tax on wheat derivatives.

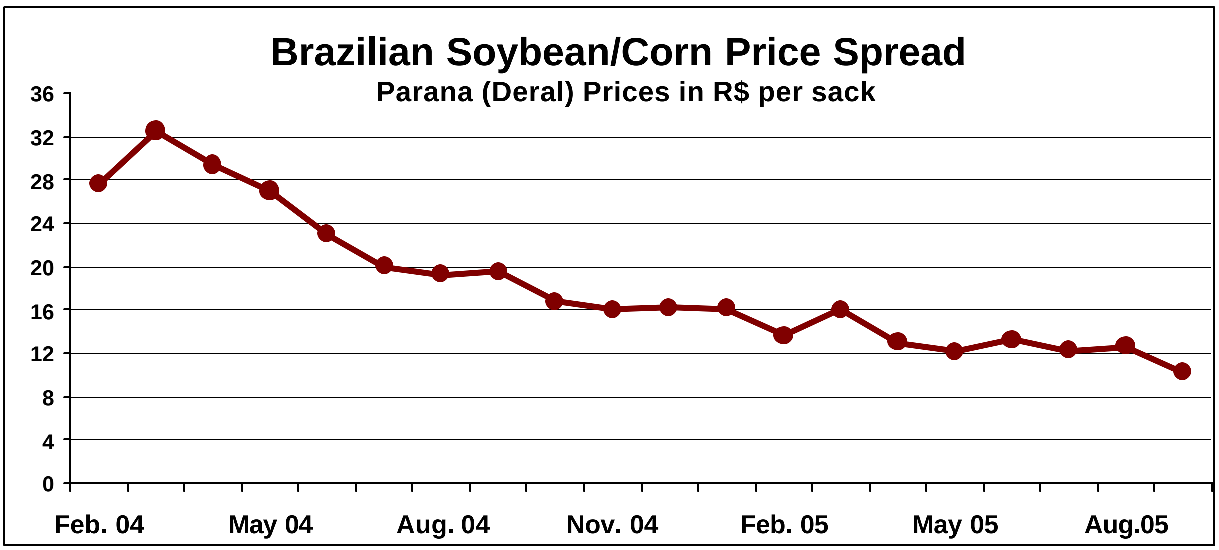
Corn
PS&D

Brazil							
Corn							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		03/2004		03/2005		03/2006	MM/YYYY
Area Harvested	12440	12800	11700	11750	13000	12800	(1000 HA)
Beginning Stocks	4798	5440	4107	5230	1007	330	(1000 MT)
Production	42000	42000	35500	35000	44000	42500	(1000 MT)
TOTAL Mkt. Yr. Imports	350	300	1000	700	600	1000	(1000 MT)
Oct-Sep Imports	677	625	700	500	800	900	(1000 MT)
Oct-Sep Import U.S.	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	47148	47740	40607	40930	45607	43830	(1000 MT)
TOTAL Mkt. Yr. Exports	4441	4400	700	600	1600	1300	(1000 MT)
Oct-Sep Exports	5818	5818	1500	1430	1000	800	(1000 MT)
Feed Dom. Consumption	33000	31400	33500	34000	35000	36000	(1000 MT)
TOTAL Dom. Consumption	38600	38110	38900	40000	40800	42000	(1000 MT)
Ending Stocks	4107	5230	1007	330	3207	530	(1000 MT)
TOTAL DISTRIBUTION	47148	47740	40607	40930	45607	43830	(1000 MT)

Production

Post's estimate for 2004/05 production is lowered to 35.0 million tons, which is even with the official Brazilian government estimate. Some industry contacts believe the winter crop, particularly in Mato Grosso, could be a bit larger than currently reported and thus the final production figure could be a slightly above 35.0 million tons. This year's crop was the lowest in five years and 7.0 million tons less than the previous year's crop. Reduced area due to dry planting conditions, severe drought in the south, and a poor winter harvest, all combined to impact the crop.

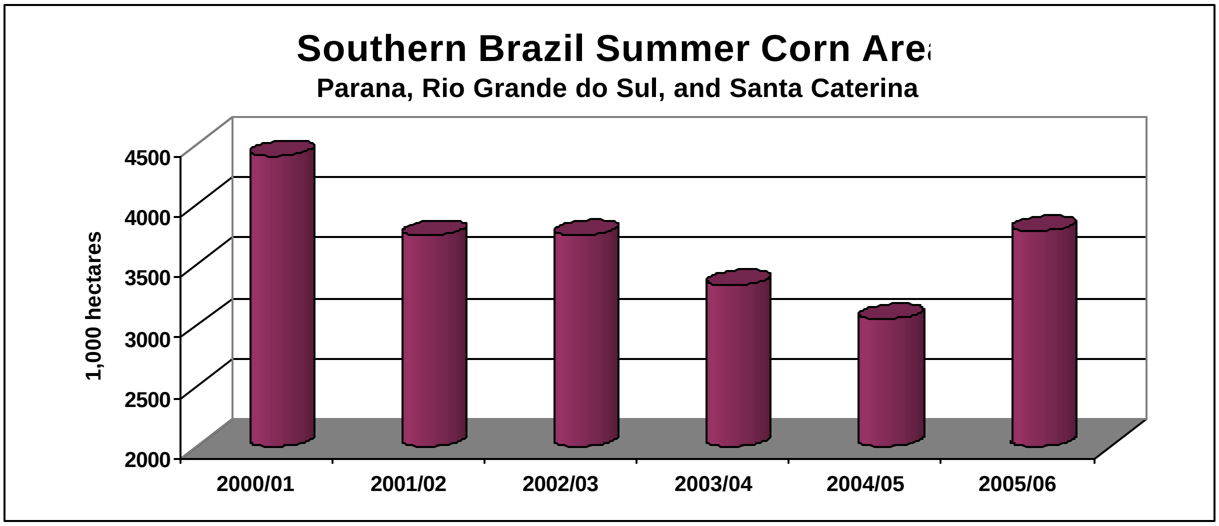
Post forecasts 2005/06 corn production at 42.5 million tons on 12.8 million hectares, which is 500,000 tons and 100,000 hectares lower than the previous Post forecast. Summer corn production is forecast at 32.5 million tons on 9.6 million hectares while the winter corn forecast is 10.0 million tons on 3.2 million hectares. The fall in the forecast from the previous Post report is due to the very tight credit situation that should limit both area and input use more than previously thought. However, the forecast is 7.5 million tons above the 2004/05 crop. Since the time of the last Post update in July, the soybean/corn price spread (see graph below) has remained low and thus continues to favor corn planting. This is especially true in the south where devastating droughts the past two years severely cut the corn crops.



For the first time in five years, corn area is forecast to grow in southern Brazil (see graph below) while soybean area should fall. Meanwhile, Post forecasts a recovery in yields to 3.3 tons/ha, which is above the 2004/05 drought-impacted yield of 3.0 tons/ha but below a reasonable potential yield of 3.5 mt/ha, which would be possible without the expected reduction in input use.

Planting has already begun in Rio Grande do Sul (RS) with approximately 55 percent of the crop sown. As planting began the price of soybeans was R$28 per sack while corn was R$18. Sources report that as a general rule, producers in the RS opt for corn when the price is greater than 50 percent that of soybeans. The yield for corn is double that of soybeans and production costs are about 2.5 times greater. Furthermore, many growers are anxious to plant corn for agronomic reasons since soybeans have been planted consecutively as the summer crop for several years.

Though a limited amount of cropland in the center-west should switch from soybeans to corn, the market situation is not as favorable to corn as in the south. Corn prices are much lower in the center-west at just R$12 per sack. This is primarily due to a healthier winter corn crop in the region and high freight costs to demand centers in the south and southeast.



Government stocks are rapidly dwindling as internal demand from the pork and poultry industries continues very strong. Given these market factors, producers in Southern Brazil believe that corn prices will increase over the next several months. However, even at current prices, the profit prospects for corn are high with the cash price of corn at R$19 per sack (R$22 for Jan. 06 delivery) and production costs estimated at between R$12 to R$14 per sack, depending on the yield. Though production costs are down from last year (see chart below) due primarily to a strong currency favoring imported inputs, relatively high-cost petroleum-based fertilizers and continued tight credit will limit the corn area expansion. Some sources believe that corn producers in the south and center-west are likely to cut back on fertilizer use by up to 20 percent, from 280 kg/ha to just 225 kg/ha. Meanwhile, growers planting corn simply to not have the access to financing which soybean producers enjoy. Post contacts in Parana and Rio Grande do Sul indicate that the crop potential could be in excess of 45.0 million tons if not for the tight credit situation.

Corn Production Costs
R$/Hectare in Minas Gerais

	2003/04	2004/05	2005/06
Fertilizers	620	657	580
Seeds and Planting Costs	188	198	195
Herbicides	146	129	115
Insecticides	47	39	38
Total Input Costs	1,059	1,029	933
Others Costs	543	535	535
Total	**1,602**	**1,564**	**1,468**

Data Source: iFNP

Trade

Post raised the 2005/06 marketing year import forecast to 1.0 million tons as a result of lower forecast production and strong expected consumption. Meanwhile, Post lowered the 04/05 marketing year import forecast to 700,000 tons, which is 100,000 tons lower than the previous forecast. Despite a very favorable exchange rate for purchases, the pace of corn imports has been notably slow over the past few months. Argentine corn continues to face biotech barriers and thus the only source of imports has been Paraguayan corn, which is reported to be of low quality. Sources suggest that some of the corn coming from Paraguay is actually being transshipped from Argentina in order for the Argentine corn to face less stringent inspection at the port of Foz do Iguacu. Nevertheless, poultry operations in southern Brazil are expected to continue to import corn from “Paraguay” along with sorghum, with imports of Argentine sorghum forecast at 120,000 tons for the marketing year). Meanwhile northeastern poultry operations are forced to rely on purchases of government corn stocks.

Exports for the marketing year beginning in March 2006 are lowered to 1.3 million tons in accordance with decreased expected exportable supply. The Post forecast for exports during the March 2005 to February 2006 marketing year is lowered to just 600,000 tons, which is down from the previous forecast of 800,000 tons. If confirmed, this level of exports would be the lowest in five years and far below last year’s record exports of 5.8 million tons. Exports for the first month (March) of the marketing year were 400,000 tons but the flow of shipments has almost completely ceased with exports over the past five months totaling less than 30,000 tons. A strong currency, tightening stocks, and rising domestic prices due to the drought damaged summer and winter crops, have all made Brazilian corn uncompetitive with cheaper Argentine and U.S. supplies. For the second half of the marketing year Post expects very minimal shipments of less than 200,000 tons, with most coming from short cycle summer corn in RS, which could be harvested in January and shipped in February before the start of the next marketing year. However, most of the summer crop will only be harvested in February and the recently harvested winter crop should be completely consumed by the internal market. This is a dramatic change from recent years as an increasingly large percentage of the winter crop was exported. Further hampering any shipments is the upcoming U.S. corn harvest with supplies expected to be significantly discounted to Brazilian corn.

Stocks and Consumption

Post forecasts corn feed consumption for 2005 (beginning March 2005) at 34.0 million tons, which includes both industrialized feed rations as well as on-farm feeding. This forecast represents an 8 percent increase over the previous year and is supported by projections from the National Association of Feed Rations (Sindiracoes). Industrialized ration consumption for poultry is forecast to increase 9 percent this year while consumption by the hog industry is forecast at 7.3 percent and livestock at 6.7 percent. This strong use forecast is primarily the result of increased exports of pork (up 29 percent during the first half of 2005) and poultry (up 20 percent). Additionally, domestic consumption of meats is up 5 percent over the same time period, as the economy remains strong.

Post lowered the ending stocks forecast for March 1, 2006, to just 330,000 tons, which is the lowest level in more than 20 years. This forecast is supported by both private and government information that stocks will fall dramatically. In the past, rising prices and tight stocks were minimized by imports, mainly from Argentina. However, with imports now not permitted, the supply situation is critical with government stocks and dwindling winter crop supplies as the primary sources to fill strong demand needs from the poultry and pork sectors.

Rice

PS&D

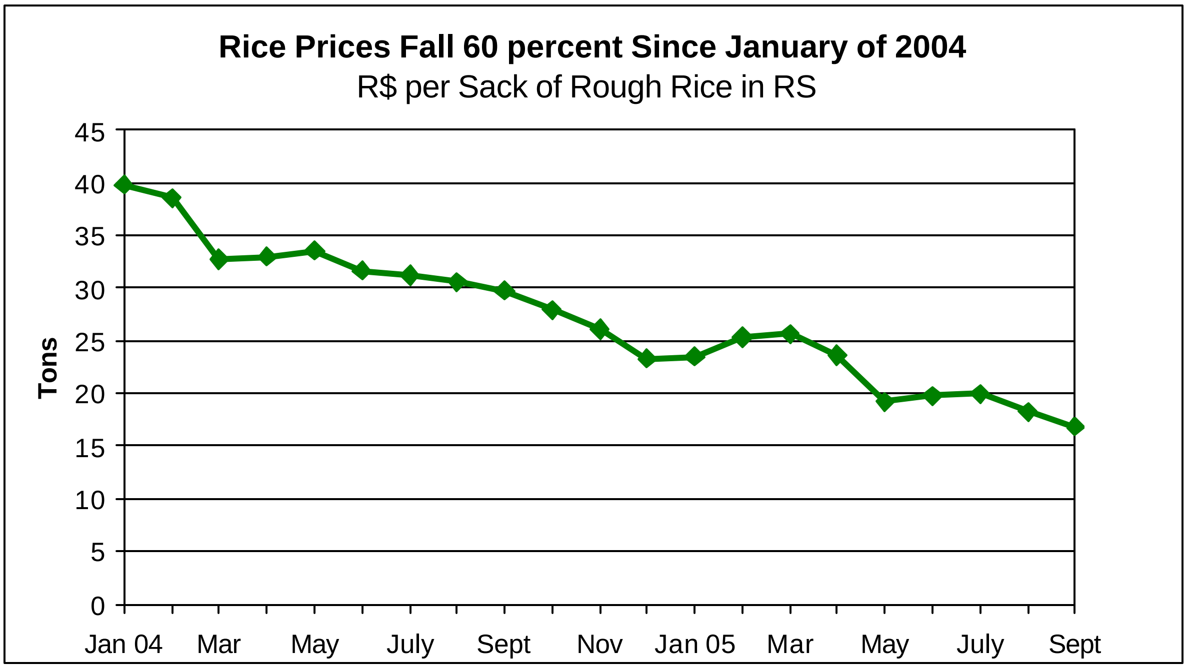
Brazil							
Rice, Milled							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		04/2004		04/2005		04/2006	MM/YYYY
Area Harvested	3732	3618	3905	3856	3500	3400	(1000 HA)
Beginning Stocks	586	570	1229	1300	1454	1525	(1000 MT)
Milled Production	8709	8709	8976	8976	8100	7820	(1000 MT)
Rough Production	12807	12807	13200	13200	11912	11500	(1000 MT)
MILLING RATE (.9999)	6800	6800	6800	6800	6800	6800	(1000 MT)
TOTAL Imports	700	787	450	550	550	700	(1000 MT)
Jan-Dec Imports	760	801	425	500	600	750	(1000 MT)
Jan-Dec Import U.S.	0	0	0	25	0	75	(1000 MT)
TOTAL SUPPLY	9995	10066	10655	10826	10104	10045	(1000 MT)
TOTAL Exports	79	79	200	300	125	125	(1000 MT)
Jan-Dec Exports	37	37	200	300	125	125	(1000 MT)
TOTAL Dom. Consumption	8687	8687	9001	9001	9210	9210	(1000 MT)
Ending Stocks	1229	1300	1454	1525	769	710	(1000 MT)
TOTAL DISTRIBUTION	9995	10066	10655	10826	10104	10045	(1000 MT)

Production

Post lowered the 2005/06 production forecast by 500,000 tons to 11.5 million tons, which is down 1.7 million tons (15 percent) from last year. Area is forecast at 3.4 million hectares for a yield of approximately 3.4 tons per hectare. Post forecasts that the largest fall in production will be seen in Mato Grosso where contacts believe the area decline should be between 30 and 50 percent. Post forecasts a 35 percent fall in area to 575,000 hectares and production down to just 1.5 million tons.

Production in Mato Grosso has been strong in recent years due to a trend of increasing yields as a result of improved varieties and better production practices. Another important factor in recent expansion is that costs of production in Mato Grosso are about 30 percent less than in RS and thus a shift to the Center-West has occurred. In fact, during a recent visit with rice producers, Post was informed that producers in southern Brazil see Mato Grosso as more of a long-term threat than production in Argentina and Uruguay. Rice producers in Mato Grosso benefit from lower transport costs, compared to RS and Santa Catarina, to consumption centers in the Northeast, which is the only region in Brazil experiencing an increase in consumption of rice. This is particularly important as Mato Grosso depends on shipping outside the state with only 200,000 tons of the state's 2.2 million tons of production consumed in the state. Furthermore, rice industry investment in mills and infrastructure is increasing with about R$50 million invested last year. As a result, milling capacity in Mato Grosso has increased from 900,000 tons in 2001 to over 1.7 million tons in 2005.

Despite the positive factors addressed above, Post forecasts a dramatic fall in planted area next year. This is primarily due to very tight credit and low soybean and cotton prices. These poor commodity prices should halt the expansion of new area in Mato Grosso, Roraima, and Maranhao. Furthermore, clearing of forest for cropland is also expected to slow due to increased surveillance by the government, which recently cracked-down on illegal logging operations. Traditionally, loggers clear land which is then put into pasture or directly to rice production for one or two years to prepare the soil for soybeans. Contacts believe that only 20 to 30 percent of rice production in Mato Grosso is on "permanent" rice land with the rest in these newly cleared fields. Further adding to the dismal outlook for production in Mato Grosso is the government's decision last year to withdraw the Cirad variety from the long/fine category. As a result, planted area to this variety should greatly decrease since the producer-paid price will fall. Most producers in Mato Grosso prefer the Cirad variety as it is considered very rustic thereby requiring less input costs. Additionally, yields for the Cirad variety average from 56 to 58 sacks per hectare while the Primaveira variety only yields 50 to 52 sacks per hectare.



Data source: Safras

Though the largest area reduction is expected to occur in the center-west region, Post forecasts that area will fall in every production state due to very low prices (see chart above). Currently producers are receiving between R$16 to R$21 per sack compared to a cost of production of R$31 per sack. With prospects for another difficult year, production would be even lower if not for poor prices for competing crops and the high investment costs committed to irrigation and harvesting equipment. In RS, area should fall due to low prices along with salinization of irrigation water in the southeast portion of the state. Approximately one million hectares in the region are at risk from salinization of the Laguna (lake) dos Patos as a result of the drought, which lowered the level of the Laguna below that of the ocean. As of late August, the level was reportedly the lowest in 50 years leading to an average of three grams of salt per liter with the maximum tolerable by rice at 0.8 grams per liter.

Trade

Post raised the 2005 calendar year import forecast to 500,000 tons and the marketing year forecast to 550,00, both of which are up 100,000 tons from the previous forecast. The import pace has picked up over the past several months with imports from January to August at 345,000 tons (milled basis). The strong pace of imports is primarily due to abundant supplies in neighboring countries and the strength of the Brazilian currency. However, imports are below the pace of last year due to a bumper domestic harvest this past year and very low domestic prices. Nearly all imports are from neighboring Mercosul countries with 51 percent coming from Uruguay, 40 percent from Argentina, and 8 percent from Paraguay.

Exports are raised to 300,000 tons due to the strong pace of exports of broken rice to Senegal. Reports suggest that up to ten more shipments of broken rice to Senegal could depart before the end of the year; thereby raising total exports to greater than 300,000 tons.

Policy

It is estimated that 40 percent of rice producers in Uruguay are Brazilian while in Argentina the figure is 35 percent. Nevertheless, complaints by Brazil against neighboring Mercosul imports continues. Brazilian producers continue to press the government to establish safeguards against imports. However, Uruguay primarily exports rice and meat to Brazil, while Brazil exports higher value consumer goods and enjoys and trade surplus. Therefore, it is unlikely the Brazilian government will take any action. Meanwhile with costs of production lower in Uruguay and Argentina, due primarily to lower taxes, imports should continue. However, the government is trying to minimize discontent among producers by purchasing supplies under the Government Acquisition Program (AGF) but is only paying the minimum price of R$20 per sack, which is significantly below the cost of production.